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The Conference Board

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Economic Times

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Editor's Note

Since our first issue was published, we've been to the theatre —"Off Broadway," as they say. From that show, "Other People's Money," we are bringing you *(pages 4 and 5)* a portion of the play's climax, consisting of two speeches, one by the CEO of a doughty old New England company, and the other by Larry the Liquidator, the corporate raider who wants to break up the company and sell off the pieces for scrap. It's an insightful episode.

In addition, this issue features the views of our *Colloquium* on the President's "Family Savings Plan" and his proposal to cut capital gains taxes, Roz Wells' list of ten major trends affecting retailers, and the resurrection of an old analytical concept, the "core" inflation rate, by Gail Fosler and myself. Also, we offer our regular *Conference Board Stat File*.

We're always glad to hear from readers, thorns as well as roses, but most important with suggestions on how we can make *Economic Times* more useful to you.

Maxim of the month:

Economics is the only profession in which a person can rise to eminence without ever being right.

Attributed to the late George Meany

Moynihan's Complaint

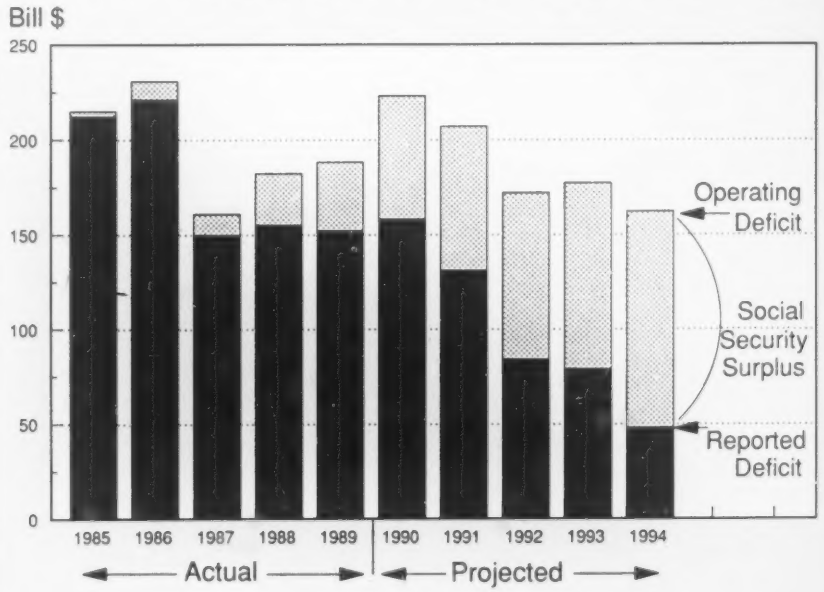
Surpluses in the social security trust funds, Senator Moynihan complains, are not being saved to pay for the benefits today's workers will receive when they retire, but are, instead, being used to finance other current federal spending — and in the process masking the true size of the government's operating deficit. This is a correct statement, as the chart shows.

Moynihan's solution? Cut social security taxes by $55 billion in 1991 to put the system on close to pay-as-you-go financing from then on.

The rejoinder to the Senator is that, although it's true the social security surplus was never intended to pay for current federal outlays, by itself a cut in social security taxes would make the situation worse rather than better. Why? Because it would mean a still larger budget deficit, which would require still more borrowing by the Treasury from the private sector. The result would be to leave a still smaller pool of savings available to finance productivity-enhancing new investment. And if we don't supply future workers with enough modern capital equipment, they will not be able to produce the larger output necessary to meet the retirement needs of today's workers after they quit working early in the next century. Thus cutting social security taxes would hurt, not help. The problem and its solution are not with social security alone; they are to be found in the total budget deficit and the effect it has to supress national savings and investment.

Ed Fiedler

BUDGET DEFICITS & SOCIAL SECURITY SURPLUSES



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Colloquium

Background:

Among the major industrial nations, the United States is normally ranked near the bottom in saving and capital investment. This point is often used to explain our slow growth in productivity and living standards, and also our problems of international competitiveness. To this end, President Bush is advocating two changes in our tax laws.

Question:

Over the long term, will the proposed "Family Savings Plan" and a lower capital gains tax rate increase saving and investment?

James Tobin
Yale University

There they go again! In reverse. Over the longer term Bush's proposals will lower national saving, losing in federal revenues more than the nonfederal savings they induce. To boost national saving, raise taxes hitting consumption, channeling the revenues to deficit reduction and public investment. Start with gasoline, alcohol, and tobacco. Lay off virtuous sounding proposals, Democratic or Republican, that reward affluent taxpayers for what they already do. Those are windfalls, not incentives.

Andrew F. Brimmer
Brimmer & Company

Neither plan will increase saving and investment over the long run. A tax-advantaged "Family Savings Plan" might influence the form in which unspent income is held (e.g., savings deposits). A lower capital gains tax would probably persuade some holders of appreciated assets to realize profits on a one-time basis. However, these basically conservative investors are unlikely to provide the risky equity capital needed by innovative entrepreneurs, who are the mainsprings of economic growth.

John T. Dunlop
Harvard University

Slow growth in productivity is the critical performance concern for the American economy. The efficiency of the economy depends on four factors: research and development, plant and equipment, public infrastructure such as roads and bridges, and human resource development. The "Family Savings Plan" and lower capital gains taxes may or may not make a small contribution to savings, but much more comprehensive and balanced private and public programs are essential to productivity and international competitiveness.

Charles L. Schultze
Brookings Institution

Attractive as it might seem politically, you cannot raise the nation's saving by lowering tax rates. The bulk of the evidence suggests that IRA-like tax incentives and reductions in capital gains rates will raise the *private* saving rate very little. But while they would do little to raise private saving, the tax loss they cause would in the long run increase the government budget deficit, and in the end reduce rather than raise total national saving.

Members:

Members of The Conference Board Economics Colloquium are: Stephen H. Axilrod, Vice Chairman, Nikko Securities International; Andrew F. Brimmer, President, Brimmer & Company; Don R. Conlan, President, Capital Strategy Research; Robert G. Dederick, Executive Vice President and Chief Economist, Northern Trust Company; John T. Dunlop, Lamont University Professor Emeritus, Harvard University; Lyle E. Gramley, Senior Staff Vice President & Chief Economist, Mortgage Bankers Association; Isabel V. Sawhill, Senior Fellow, The Urban Institute; Charles L. Schultze, Director, Economic Studies Program, The Brookings Institution; James Tobin, Sterling Professor Emeritus, Yale University; Laura D'Andrea Tyson, Visiting Professor, Harvard University; Charls E. Walker, Chairman, Charls E. Walker Associates; Murray Weidenbaum, Director, Center for the Study of American Business; Albert M. Wojnilower, Senior Advisor, First Boston Corporation.

Larry the Liquidator vs. New England Wire and Cable

The controversy over corporate takeovers involves a variety of complex issues: Who could manage the firm more competently, current management or the raiders? How much borrowing is appropriate for this balance sheet? Is the company better off dead or alive? This last issue is sharply drawn in Jerry Sterner's acclaimed play, "Other People's Money," which tells the story of a Wall Street takeover artist's attempt to gain control of a sturdy old New England company. The struggle reaches a climax at the company's annual meeting of shareholders. Here are excerpts from the speeches delivered at that meeting by the two protagonists, the company's benevolent and competent Chairman, Andrew Jorgenson, and the leader of the takeover forces, Lawrence Garfinkle:

Andrew Jorgenson:

Thank you for coming and welcome to the 73rd Annual Meeting of New England Wire and Cable — the 38th of which I am addressing you as your Chief Executive …. I'd like to share with you some of my thoughts concerning the vote you are about to make in the company you own.

We've had some very good years. We've had some difficult ones as well. … We might not have flourished — but we survived. And we're stronger for it. I'm proud of what we accomplished. So, we're at that point where this proud company … is in imminent danger of self-destructing this day in the town of its birth.

And there is the instrument of our destruction. I want you to see him in all his glory. Larry the Liquidator — the entrepreneur in post-industrial America — playing God with other people's money.

At least the robber barons of old left something tangible in their wake. A coal mine. A railroad. Banks. This man leaves nothing. He creates nothing. He builds nothing. He runs nothing. In his wake lies nothing but a blizzard of paper to cover the pain.

If he said, "I could run this business better." Well, that's something worth talking about. He's not saying that. He's saying, "I am going to kill you because at this particular moment in time you're worth more dead than alive."

Well, maybe that's true. But it is also true that one day this industry will turn. One day when the dollar is weaker or the yen stronger or when we finally begin to rebuild the roads, the bridges, the infrastructure of our country demand will skyrocket. And when those things happen we will be here — stronger for our ordeal — stronger for having survived. And the price of our stock will make his offer pale by comparison.

God save us if you vote to take his paltry few dollars and run. God save this country if *(Pointing to* Garfinkle.*)* "that" is truly the wave of the future. We will then have become a nation that makes nothing but hamburgers, creates nothing but lawyers, and sells nothing but tax shelters.

This, too, is murder, on a mass scale, only on Wall Street they call it "maximizing shareholder values."

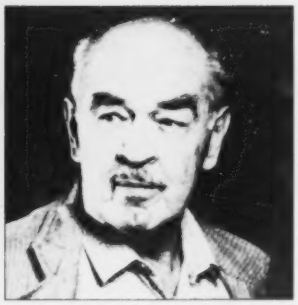
And if we have come to the point in this country where we kill something because at the moment it's worth more dead that alive, then turn around and take a good look at your neighbor. You won't kill him because it's called "murder" and it's illegal. This, too, is murder, on a mass scale, only on Wall Street they call it "maximizing shareholder values" and they call it legal and they substitute dollar bills where a conscience should be.

Damn it. A business is more than the price of its stock. It is the place where we make our living, meet our friends and dream our dreams. It is, in every sense, the very fabric that binds our society together.

So let us, right now, at this meeting, say to every Garfinkle in this land, that here we build things—we don't destroy them.

Here, we care for more than the price of our stock.

Here … we care about people!



Arch Johnson as Andrew Jorgenson

Kevin Conway as Lawrence Garfinkle

Lawrence Garfinkle:

Say "Amen," someone, please!.... 'Cause that's what you just heard — a ... prayer for the dead ...

What — You don't think this company is dead? Steel — you remember steel, don't you? Steel used to be an industry. Now heavy metal is a rock group.

This company is dead. Don't blame me. I didn't kill it. It was dead when I got here. It is too late for prayers, for even if the prayers were answered and a miracle occurred and the yen did this and the dollar did that and the infrastructure did the other thing, we would still be dead. Know why? Fiber-optics. New technologies. Obsolescence.

We're dead, all right. We're just not broke. And you know the surest way to go broke? Keep getting an increasing share of a shrinking market. Down the tubes. Slow but sure ....

You invested in a business. And that business is dead. Let's have the intelligence, let's have the decency, to sign the death certificate, collect the insurance and invest the money in something with a future.

Aha — But we can't, goes the prayer— we can't because we have a responsibility — a responsibility to our employees, our community ... What will happen to them? I got two words for that — "Who cares?" Care about them? They didn't care about you. They sucked you dry. You have no responsibility to them.

For the last ten years this company has bled your money. Did this Community care? Did they ever say, "I know things are tough. We'll lower your taxes, reduce water and sewer?" Check it out. We're paying twice what we paid ten years ago. And the mayor is making twice what he made ten years ago. And our devoted employees, after taking no increases for three years, are still making twice what they made ten years ago. And our stock is one-sixth what it was ten years ago.

The business is dead. Let's invest the insurance money in something with a future.

Who cares? I'll tell you — me! I'm not your best friend — I'm your only friend. I care about you in the only way that matters in business. I don't make anything? I'm making you money. And, lest we forget, that's the only reason any of you became stockholders in the first place. To make money. You don't care if they manufacture wire and cable, fry chicken, or grow tangerines. You want to make money. I'm making you money. I'm the only friend you got.

Take that money. Invest it somewhere else. Maybe — maybe you'll get lucky and it will be used productively — and if it is — you'll create more jobs and provide a service for the economy and — God forbid—even make a few bucks for yourself....

And it pleases me that I'm called "Larry the Liquidator." You know why, fellow stockholders? Because at my funeral you'll leave with a smile on your face ... and a few bucks in your pocket. Now, that's a funeral worth having.

There you have it, the essential issue: If Jorgenson is correct when he says that one day demand for the company's products will skyrocket, then his lean, mean company is definitely worth preserving. Alternatively, if Garfinkle is correct that fiber optics and other new technologies have made the company's products obsolete, then selling the assets for scrap is the best solution — best for the economy as well as best for the stockholders. In real life, takeover issues are never drawn so starkly and simply, but in "Other People's Money," it's all bound up in that single, unadorned difference of opinion.

Oh, you want to know who won the proxy battle? Well, it was — *No, that wouldn't be fair. I'd better stop here. If you want to know how it comes out, see the play.*

Ten Trends for Retailing in the 1990s

By Rosalind Wells

Rosalind Wells
President, Wells & Associates,
and Chief Economist
National Retail Federation

I. Population and Household Growth Will Slow

Growth in consumer purchases will be slower than in past decades — about 6 percent per year for general merchandise. Thus intense competition among retailers will continue —an unending battle for market share.

II. Changing Age Structure: Fewer Young Adults

The shortage of educated young employees will get worse. In response, stores will recruit from among retirees, handicapped, etc., and substitute capital for labor to raise productivity. Automatic systems for inventory replenishment and payments will catch on. As banking has learned, customers prefer machines to inefficient or overburdened clerks. Spending on standard appliances, basic furniture, and infant's apparel will be restrained.

III. Changing Age Structure: More Middle Aged and Older Folks

"Baby-boomers"— now aged 35-54 years — will rise from 25 to 30 percent of the population by the year 2000. On average, they will have 50 percent more income than households headed by someone under 35. Thus retailers will move upscale, change their image, upgrade merchandise, and add luxury goods.

More old folks means more spending for women's apparel, floor coverings, home textiles, eating out, entertainment, and personalized services such as interior decorating.

IV. Growing Importance of the World Economy

As the world's leader in distributing consumer goods, U.S. efficiency, innovation and marketing savvy should serve us well in other markets. Eastern Europe now presents a special opportunity.

V. A Less Pronounced Business Cycle

A more stable environment will lead to better planning. With smaller swings in consumer demand, the risks associated with aggressive merchandising will be moderated.

VI. Consumer Savings Will Increase

Federal incentives such as more liberal IRAs and lower capital gains taxes are on the horizon. More savings will mean slower growth in spending especially for cars and other durables. Services will continue to grow the fastest.

VII. Shifting of Social Costs onto Business

Labor-intensive retailers will be most vulnerable to efforts to increase the minimum wage, mandate private health insurance, increase the availability of child care, provide for parental leave, and redress persistent wage inequalities between men and women.

VIII. Women in the Workforce Will Continue to Increase

This puts a still larger premium on "time," which favors stores that have a clear identity and offer efficient and convenient shopping. Good product value and basic customer service will also continue to count heavily.

IX. Increased Diversity of Lifestyles and Family Situations

Retailers cannot be all things to all people. They must use target marketing on our increasingly heterogeneous population. It's not just getting *people* into the store, it's getting the *right* people in. Falling computer costs help make such targeting possible.

X. The Merger, Acquisition and LBO Craze of the 1980s Has Permanently Affected the Retail Industry

The common denominator is cost control. In an environment that features only modest sales growth, no one can afford to be the high-cost merchandiser.

The Bottom Line

is that the retailing world is changing dramatically. Running a store the same way it's always been done is not going to produce superior results in the future. Success will require that management quickly and accurately identify, interpret and react to emerging trends.

U.S. Population Distribution by Age

Age Group	1980	1990	2000	1980-90	90-2000
	% of total			*pct. pts.*	
Under 15	22.5	21.6	20.2	-0.9	-1.4
15-24	18.8	14.4	13.7	-4.4	-0.7
25-34	16.5	17.6	13.8	1.1	**-3.8**
35-44	11.4	15.1	16.4	3.7	1.3
45-54	10.0	10.2	13.9	0.2	**3.7**
55-64	9.5	8.5	9.0	-1.0	0.5
65+	11.3	12.6	13.0	1.3	0.4
Total	100.0%	100.0%	100.0%	0.0	0.0
Median Age	30.0	33.0	36.4		

Trouble at the Core?

The consumer price index (CPI) behaved badly in the first quarter, rising at a worrisome annual rate of about 8 1/2 percent. Although some temporary acceleration was expected from the 4 percent inflation rate that has marked the past half decade, the first-quarter surge was a great surprise, and helped create gloom, doom, and serious losses in the bond market.

Few analysts expect inflation to continue at the first-quarter pace. But how fast should we expect the general price level to rise? Is the recent surge simply a one-shot phenomenon, a spike in an otherwise steady inflation picture? Or is it the start of something bigger, something we need to worry about more than before?

To gain some perspective on this issue, *Economic Times* is resurrecting an old analytical concept, somewhat neglected recently, called the "core" or "underlying" inflation rate. The idea is simple: The CPI is stripped of its most volatile components, food at home and energy. These two groups are selected because they are large components of the CPI that experience wide erratic price swings often enough to distort the overall index. Removing those two components does not eliminate all aberrant behavior in the index, but it does produce a smoother series that makes it easier to spot meaningful changes in the inflation rate. A telling example is found in 1986, when the collapse of energy prices suppressed the CPI inflation rate to about 1 1/2 percent, but the core inflation rate continued to roll along at just over 4 percent.

If our surveillance of inflation is limited to prices, however, we're missing half the story. Inflation is a two-sided coin, prices on one side, costs on the other. Our best measure of costs--not an ideal series, but the best available — is the Employment Cost Index (ECI), an index of employee compensation including benefits as well as wages and salaries. Like the CPI, however, the ECI includes several elements that frequently obscure the underlying rate of employment-cost inflation, either because they are erratic or because they don't respond promptly to changing economic conditions. Specifically, these are social security taxes, bonuses and commissions paid to sales workers, and the compensation of state and local government workers. To see what's happening to the "core" rate, therefore, we remove the components that include these items and watch the rest, i.e., the wages and salaries of private-sector workers other than sales personnel. This series would be better if it included workers' medical benefits paid by employers, which are a major source of cost pressures, and if it took account of productivity gains, which are an offset. For now at least this is the best indicator available to show whether or not cost pressures are mounting.

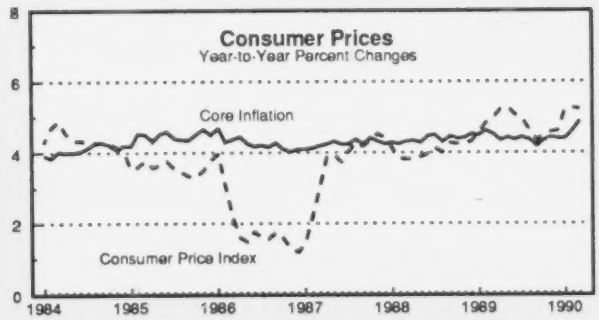
Inflation is a two-sided coin, prices on one side, costs on the other.

What we find from the charts of these series (henceforth to be included regularly in the STAT FILE section of this publication) is that the threat of accelerating inflation is not as serious as the unadjusted CPI suggests. Both of our measures of core inflation, however, are emitting clear signals of continuing inflation and also, from the very latest figures, tentative signals of moderate acceleration — nothing like 8 1/2 percent but more than we've been experiencing. Moreover, the core rate of price inflation was held down in recent months by restraint in goods prices, which won't continue if the economy picks up steam.

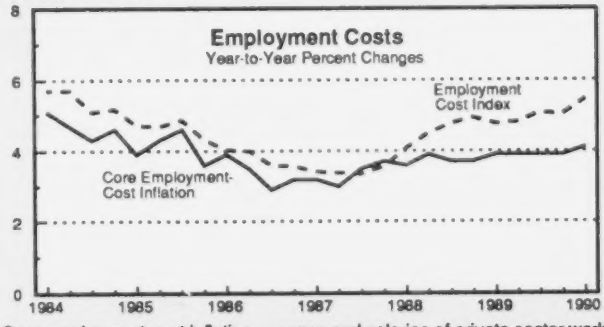
For now, however, there's probably not enough trouble "at the core" to get worked up about. The best bet for this year is a 4 to 5 percent increase in the general price level. But the early 1990 data warn us that these indexes bear watching. A higher rate of inflation may lie just over the horizon.

Gail Fosler & Ed Fiedler

Inflation Fundamentals



Core inflation = CPI excluding food at home and energy

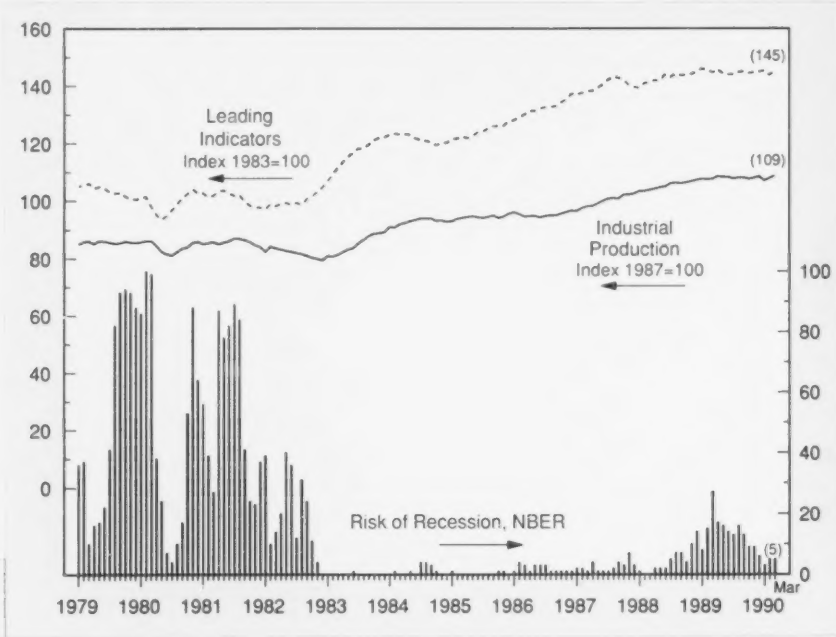


Core employment-cost inflation = wages and salaries of private sector workers excluding sales personnel (i.e.,excluding the benefits that are part of the ECI)

Conference Board Stat File

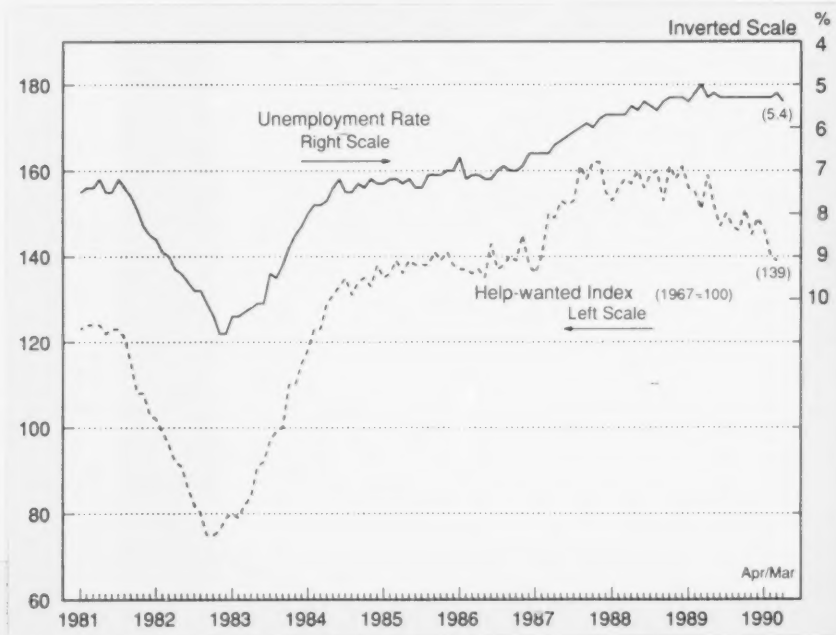
As the charts and forecasts on these pages show, the latest signs and portents tell the identical story as last month: The economy is still moving forward slowly, and staying out of trouble (or, if you prefer, avoiding worse trouble). The labor markets *(bottom of this page)* look just a touch weaker, while the momentum indexes *(next page)* have strengthened slightly. But that's how it's been going for about 18 months — every positive signal is countered by one moving the other direction In sum, the economy is still going nowhere fast. *(Note: Data for Conference Board series in this section are available on request; please call Ken Goldstein at 212-339-0331.)*

Early Warning Indicators



Economy drifting comfortably. Recession chances remote.

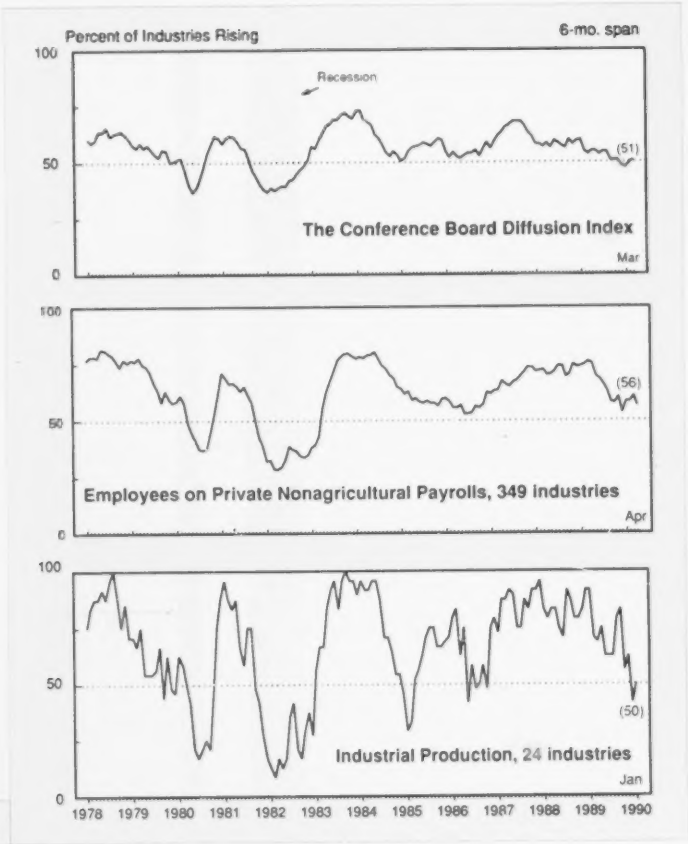
Help-wanted Advertising and Unemployment



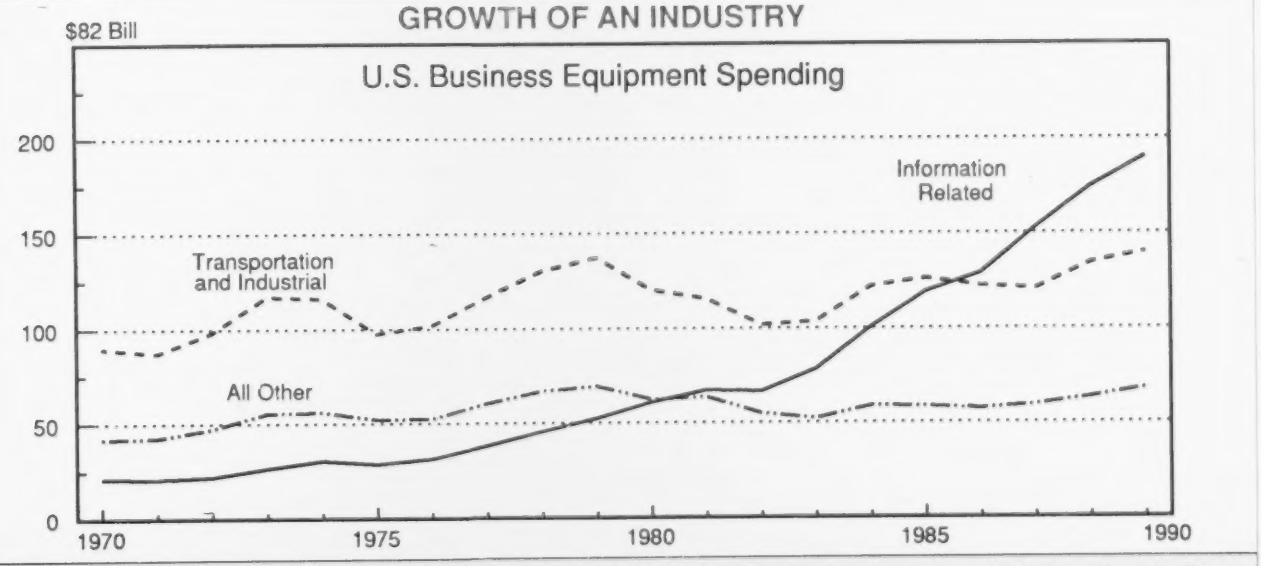
Labor demand softening.

Conference Board Stat File

Indexes of Economic Momentum



A Mexican stand-off.

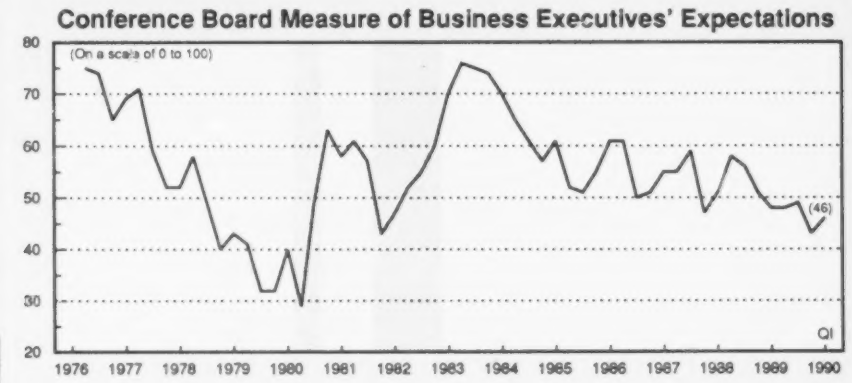


Comment: Mention "capital investment" to any economist with gray hair, and he'll immediately think of machine tools and semitrailers, because that type of equipment was the heavyweight of the investment sector for many decades. But no longer; the world turns, as this chart illustrates. Computers, communications gear and other information-related equipment have grown so dramatically for so long that they now completely dominate the category. Indeed, this year they will become more than half the total.

Conference Board Stat File

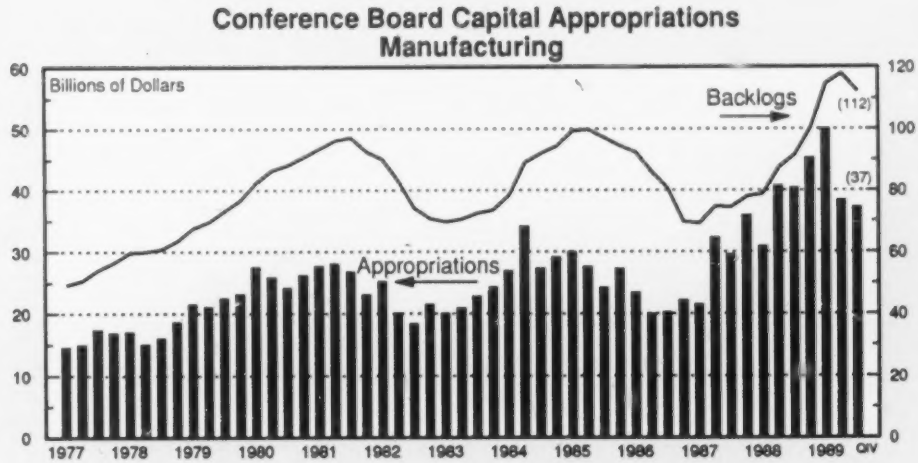
Confidence

Consumer attitudes: subdued but not sour.



Executive attitudes: mixed but drooping.

Investment Intentions



Manufacturers' expansion plans off a bit.

Inside the Crystal Ball

		UCLA	MERRILL L.	DUPONT	GEORGIA ST.	CONF. BOARD	L.H. MEYER	DRI	WEFA		
Date of Forecast		Apr.	Apr.	Apr.	Apr.	Apr.	Apr.	Apr.	Apr.		
Gross National Product											
(Quarter-to-quarter percent change, constant dollars, seasonally adjusted at annual rates)											
		%	%	%	%	%	%	%	%		
Actual	1989 4Q	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4Q 1989	Actual
	1990 1Q	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	1Q 1990	
Forecast	2Q	3.2	2.8	1.6	2.2	3.6	2.4	3.0	3.0	2Q	Forecast
	3Q	2.0	2.3	1.6	2.2	3.5	1.1	2.3	1.5	3Q	
	4Q	1.7	1.5	1.5	1.3	2.8	1.1	1.3	1.9	4Q	
	1991 1Q	1.6	1.7	1.9	1.9	2.4	1.7	2.5	2.5	1Q 1991	
	2Q	1.8	2.3	2.5	1.4	2.3	2.9	2.2	2.3	2Q	
	3Q	2.0	2.4	3.0	2.3	2.2	2.2	2.1	2.3	3Q	
	4Q	2.2	2.5	2.8	3.0	2.8	2.6	1.5	2.5	4Q	
	1992 1Q	2.4		3.1		1.6	2.7	2.2	2.5	1Q 1992	
	2Q	2.6		3.4		1.8	2.4	2.7	2.5	2Q	
Inflation (GNP Deflator)											
(Percent change from same quarter one year earlier)											
Actual	1989 4Q	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	1989 4Q	Actual
Forecast	1990 4Q	4.3	4.3	4.1	4.3	4.3	4.3	3.9	4.3	1990 4Q	Forecast
	1991 4Q	4.1	4.2	3.9	4.3	4.0	4.1	4.0	4.1	1991 4Q	
Unemployment Rate											
(Percent, quarterly)											
Actual	1989 4Q	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	4Q 1989	Actual
	1990 1Q	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	1Q 1990	
Forecast	2Q	5.5	5.3	5.3	5.3	5.3	5.2	5.3	5.3	2Q	Forecast
	3Q	5.5	5.4	5.4	5.2	5.3	5.3	5.3	5.4	3Q	
	4Q	5.6	5.5	5.5	5.4	5.3	5.5	5.3	5.5	4Q	
	1991 1Q	5.7	5.5	5.6	5.5	5.3	5.6	5.3	5.6	1Q 1991	
	2Q	5.7	5.4	5.5	5.6	5.3	5.6	5.3	5.6	2Q	
	3Q	5.7	5.4	5.4	5.5	5.3	5.6	5.4	5.6	3Q	
	4Q	5.7	5.4	5.3	5.4	5.3	5.6	5.4	5.5	4Q	
	1992 1Q	5.7		5.2		5.3	5.6	5.4	5.5	1Q 1992	
	2Q	5.7		5.2		5.3	5.6	5.4	5.4	2Q	

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